

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L CAIRO 17162

E.O. 11652: GDS
TAGS: ECON, PFOR, EG
SUBJECT: PM'S POLICY STATEMENT BEFORE PEOPLES ASSEMBLY

1. SUMMARY. PM MAMDOUH SALEM PRESENTED MAJOR GOE
POLICY STATEMENT TO EOPLES ASSEMBLY DECEMBER 11.
HIS FORMULATION OF GOVERNMENT POLICIES WAS LONG ON
ECONOMIC AND FINANCIAL AFFAIR, BUT SHORT ON BOTH
DOMESTIC AND INTERNATIONAL POLITICAL QUESTIONS. MOST
OF STATEMENT WAS UNREMARKABLE CLUTTER OF PLATITUDES
AND NUMBERS. CERTAIN PROGRAMS AND PLANNED ACTIONS
SUGGEST SIGNIFICANT FURTHER SHIFT TOWARD MORE OPEN
ECONOMY, HOWEVER, END SUMMARY.

2. CAIRO ENGLISH LANGUAGE DAILY EGYPTIAN GAZETTE'S
OFTEN INTEMPERATE AND INVARIABLY WORDY LEAD ARTICLE
WRITER HAD FOLLOWING EDITORIAL COMMENT DECEMBER 13
ON PM'S STATEMENT: "A GLANCE AT THE GOVERNMENT
POLICY STATMENY SET UP IN TYPE GIVES MORE THAN ANY-
THING AN IMPRESSION OF MATHEMATICAL FALL-OUT; AS
IF A GIGANTIC EQUATION EXPLODED AND UNLEASHED A
CLOUD OF RECKLESS FIGURES OVER AN EIGHT-COLUMN
DIASTER AREA THE POLICY STATEMENT READ BY
REMIER MAMDOUH SALEM BEFORE THE PEOPLES ASSEMBLY
ON SATURDAY WAS HIGHLY OPTIMISTIC, SPECIFIC IN ITS
GOALS, CHALLENGING TO THE GOVERNMENT AND PEOPLE,
AND A BIG SMUG IN ITS TARGETS AND COMPARISONS --
IN FACT JUST LIKE ANY POLICY STATEMENT THAT WAS
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EVER DRAWN UP BY A NEWLY INSTALLED CABINET"

3. WE AGREE GENERALLY IN THIS ASSESSMENT, AND YET THERE ARE ITEMS OF SIGNIFICANCE BURIED IN THE VERBIAGE, ESPECIALLY WITH REGARD TO ECONOMIC REFORM MEASURES UNDER CONSIDERATION OR BEING URGED ON THE GOE. DISCUSSION OF THIS SUBJECT WAS EXPLICITLY UNDERTAKEN BY THE PM AND HIS STATEMENT AFFIRMED THAT GOE IS ENDEAVORING TO IMPLEMENT URGENTLY A NUMBER OF SUCH MEASURES, WITH RELEVANT STUDIES TO BE COMPLETED BY END OF MARCH, 1977. INCLUDED AMONG THESE URGENT QUESTIONS ARE AMENDMENTS TO THE ARAB AND FOREIGN INVESTMENT LAW AND TO TAX LAWS, IN BOTH CASES TO BE SUBMITTED TO PEOPLES ASSEMBLY DURING NEXT THREE MONTHS.

4. PM ALSO SPECIFIED RESCHEDULING FOREIGN DEBTS AS AREA OF PLANNED ACTION IN ECONOMIC SECTOR AND SAID GOE IS LAYING GROUNDWORK FOR EGYPT TO BECOME INTERNATIONAL MONEY MARKET THROUGH LIBERALIZED FOREIGN EXCHANGE CONTROL.

5. CHANGES IN INVESTMENT LAW AND FOREIGN EXCHANGE REGULATIONS WERE LINKED WITH ACHIEVING "REAL GOALS" OF OPEN DOOR POLICY, WHICH NONETHELESS, ACCORDING TO PM, "DESPITE ALL OBSTACLES" HAS BEGUN TO SHOW SATISFACTORY RETURNS. PM THEN ENUMERATED VALUE OF PROJECTS ALREADY APPROVED FOR INVESTMENT: LE 671 MILLION, PLUS LE 385 MILLION IN FREE ZONES. PM LISTS ADDITIONAL \$975 MILLION INVESTMENT IN PETROLEUM, NOTING THAT FX EARNINGS FROM THAT SECTOR WILL TOTAL LE 210 MILLION EQUIVALENT IN 1977 AND LE 450 MILLION BY 1980, COMPARED WITH LE 130 MILLION IN 1976. HE ALSO STATED INVESTMENT IN SUMED PIPELINE HAS RECEIVED \$400 MILLION.

6. INDUSTRY, TRANSPORT, COMMUNICATIONS, HOUSING POPULATION, EDUCATION, SOCIAL SERVICES AND OTHER AREAS OF CONCERN CAME IN FOR SIMILAR, IF PERHAPS LESS EXTENSIVE, TREATMENT BY PM, ALL WITH CONSIDERABLE "MATHEMATICAL FALL-OUT." A FEW NUMBERS MERIT ATTENTION, HOWEVER. IN DISCUSSING FINANCIAL

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QUESTIONS, THE PM SAID THE COST OF DOMESTIC SUBSIDIES ON BASIC COMMODITIES WILL REACH LE 475 MILLION -- A TOTAL WHICH INDICATES THAT THIS AREA OF REFORM PROPOSED BY THE IMF IS NOT EXPECTED TO BE TREATED AS URGENT. THE FIVE YEAR PLAN FORECASTS AN ANNUAL GDP INCREASE OF 9.7 PERCENT. POPULATION GROWTH IS EXPECTED TO DECLINE TO 1.6 PERCENT PER ANNUM BY 1985 FROM THE CURRENT 2.3 PERCENT. TOTAL

FOREIGN DEBT AMOUNTS TO LE 4,620 MILLION (\$11.8 BILLION AT THE OFFICIAL RATE -- A FIGURE WE HAVE NOT HERETOFORE SEEN). INVESTMENT TOTALLED LE 950 MILLION IN 1976 AND IS EXPECTED TO REACH LE 1,285 MILLION NEXT YEAR.

7. ON LABOR AFFAIRS, SALEM STATEMENT DOES NOT GO BEYOND SOME- WHAT VAGUE PRONOUNCEMENTS ON PREVIOUSLY ANNOUNCED GOVERNMENT/ PUBLIC SECTOR WAGE RASISES FOR JANUARY. JUST WHO WILL BE AFFECTED BY RAISES AND HOW MUCH REMAINS UNCLEAR. STATEMENT MENTIONS LE 180 MILLION IN RASIES FOR 1977 WITH NO INDICATION OF HOW THIS MONEY WOULD BE APPORTIONED. SAME GOES FOR UNCLARIAIED PROJECTION THAT WAGES ARE "SCEDHULED" TO RISE BY 11 PERCENT AND WORKERS' SHARE OF PROFITS WILL CLIMB FROM LE 21 TO 29 MILLION.

(COMMENT: LABOR LEADERS SAY ONLY JANUARY ENUCIATION OF NEW WAGE POLICY WILL MAKE SITUATION CLEAR. THEY HAVE NOT, UNTIL NOW, BEEN SUCCESSFUL IN MAKING THEIR OWN INPUT INTO THE PLAN AND DOUBT THAT THE GOVERNMENT WILL BE ABLE TO COME CLOSE TO WORKERS' EXPECTATIONS - ABOVE FIGURES WILL OFFER COLD COMFORT -- ALTHOUGH TYE REALIZE THAT THE GOE HAS LITTLE ENOUGH TO GIVE. THEY DO OT RULE OUT INCIDENTS OF UNREST AFTER THE JANUARY ANNOUNCEMENTS, BUT GIVE NO EVIDENCE OF CONCERN THAT SERIOUS LABOR TROUBLE IS IN THE OFFING.)

8. PM BARELY TOUCHED ON FOREIGN POLICY AND INTERNAL POLITICAL MATTERS AND THEN ONLY TO REITERATE WELL-KNOWN GOE POSITIONS. AFRICA, NON-AIGNED, WESTERN EUROPE AND CHINA MENTIONED ONLY IN PASSING. IRAN WAS SINGLE COMENDATION. A. ARAB SOLIDARITY AND MEPC. RECENT EVENTS IN LEBANON PROVED SOUNDNESS OF GOE ARAB POLICY. RAPPROACHMENT WITH SYRIA AND GOE-SARG RELATIONSHIP WITH PLO ARE OF VITAL IMPORTANCE AND THESE THREE WILL LEAD ARAB DRIVE FOR GENEVA CONFIDENTIAL

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MEPC IN 1977.

B. USSR. RELATIONS WITH BOTH US AND USSR TO BE BASED ON QUALITY, NON-INTERVENTION, ET AL. SADAT IS GRATEFUL TO USSR FOR ITS SUPPORT OF ARAB CAUSE, BUT "USSR MUST TRASNLATE SUCH SUPPORT INTO PRACTICAL AND DEFINITE ACTIONS TO BOOST ARAB FRONT AND INCREASE CAPACITY TO CONFRONT AGGRESSION."

C. U.S. EGYPT HOPES PRESIDENT-ELECT CARTER WILL "ADOPT RIGHT AND JUST MEASURES THAT WILL PREVENT ME SITUATION FROM DETERIORATING AGAIN."

D. SUPREME COURT. GOVERNMENT WILL SOON INTRODUCE DRAFT LAW ON SUPREME CONSITUTIONAL COURT AND OTHER LAWS TO

CONSOLIDATE INDEPENDENCE OF THE JUDICIARY.

9. COMMENTS ON PORTION OF STATEMENT DEALING WITH
AGRICULTURAL MATTERS FOLLOW SEPTTEL.
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